

Message Text

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SUBJ: RECENT AND PROPOSED GOJ FINANCIAL AND ECONOMIC MEASURES

SUMMARY. JAPANESE GOVT ECONOMIC POLICY PLANNERS THIS WEEK SHIFTED THEIR ATTENTION FROM SHEPHERDING THROUGH THE JUST-CONCLUDED DIET SESSION A SERIES OF SPECIAL FINANCE MEASURES (WHICH AUTHORIZE (A) RESUMPTION OF GOJ BOND ISSUANCE TO FINANCE CURRENT BUDGET DEFICITS AND (B) AN INCREASE IN JAPAN NATIONAL RAILWAY FARES AND TELEPHONE AND TELEGRAPH RATES) TO THE CONSIDERATION OF MEASURES WHICH ARE DESIGNED TO BOLSTER ECONOMIC RECOVERY IN JAPAN AND PERHAPS ALSO TO RAISE VOTERS' SPIRITS ON THE EVE OF THE DECEMBER ELECTIONS. GOJ INTEREST IN NEW EXPANSIONARY STEPS IS RESULT OF DECLINING INDUSTRIAL PRODUCTION, SLUGGISH CONSUMPTION, AND A SLOWDOWN IN THE RATE OF EXPORT GROWTH FROM A BOOM WHICH HAD LASTED THROUGHOUT MUCH OF 1976. MINISTERIAL COUNCIL ON ECONOMIC POLICY IS SCHEDULED MEET NOVEMBER 12 AND SEVERAL STEPS TO STIMULATE ECONOMY ARE EXPECTED TO BE ANNOUNCED THEN. HOWEVER, WITH INFLATION STILL A MAJOR CONCERN AMONG TOP JAPANESE OFFICIALS, SUCH NEW MEASURES ARE LIKELY TO PROVE TO BE OF LIMITED MACRO-ECONOMIC IMPORT. END SUMMARY.

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1. DURING ITS EXTRAORDINARY SESSION WHICH ENDED NOV 4, THE JAPANESE

DIET PASSED THREE SPECIAL MEASURES DESIGNED TO IMPROVE THE STATE OF THE PUBLIC FINANCES. THE SPECIAL PUBLIC FINANCE MEASURE PASSED OUT 15 AUTHORIZES THE GOVT TO RESUME ISSUING BONDS TO FINANCE DEFICITS IN THE CURRENT BUDGET. TWO OTHER LAWS, BOTH PASSED ON THE FINAL DAY OF THE SESSION, AUTHORIZE SUBSTANTIAL INCREASES IN PUBLIC TELEPHONE, TELEGRAPH, AND RAILWAY USER CHARGES.

2. THE ISSUANCE OF BONDS UP TO A VALUE OF 3,750 BILLION YEN (ABOUT 13 BILLION DOLS) IS AUTHORIZED BY THE SPECIAL PUBLIC FINANCE LAW. WITHIN THE NEW AUTHORIZATION ABOUT 4.4 BILLION DOLS WAS ISSUED OCT 22 AND A SECOND ISSUE TOTALING ABOUT 2.8 BILLION DOLS IS SCHEDULED FOR NOV 20. THE LAW ON RAILWAY PASSENGER FARES AND FREIGHT RATES HAS AUTHORIZED INCREASES IN EACH AMOUNTING TO A LITTLE OVER FIFTY PER CENT. JNR OFFICIALS ESTIMATE THAT ALTHOUGH SOME USERS WILL SWITCH TO OTHER MEANS OF TRANSIT. RECEIPTS FROM BOTH FARES AND FREIGHT WILL RISE BY ABOUT 35-40 PERCENT. TELEPHONE CHARGES IN THE AGGREGATE WILL RISE BY ABOUT FIFTY PER CENT AND TELEGRAPH CHARGES WILL DOUBLE (OR, IN THE CASE OF SOME FORM MESSAGES, TRIPLE).

3. THE REVENUE THAT WILL BECOME AVAILABLE FROM THESE LONG-DELAYED BILLS WILL (AND WAS INTENDED TO) HELP BALANCE PUBLIC COMMUNICATIONS CORPORATION BUDGETS AND HELP RESCUE THE JAPAN NATIONAL RAILWAYS CORPORATION FROM ITS CRITICAL FINANCIAL DIFFICULTIES. HOWEVER, RECENT INTEREST IN THE PASSAGE OF THESE BILLS HAS FOCUSED MORE THAN BEFORE ON THE STIMULUS WHICH EXPENDITURES UNDER THEM MAY PROVIDE FOR THE ECONOMY IN ITS CURRENT LULL. (DELAY IN THEIR PASSAGE ALREADY HAS PRODUCED NEGATIVE EFFECT ON ECONOMY. PRIOR TO PASSAGE, EVEN ASIDE FROM POSTPONEMENT NEW PROJECTS, JNR WAS DEFERRING SOME PAYMENTS TO CONTRACTORS FOR WORK ALREADY COMPLETED OR IN PROGRESS.)

4. PASSAGE OF THE FINANCE LAWS REPRESENTS CLEARING AWAY OF POLITICALLY DELAYED OLD BUSINESS ON THE GOJ ECONOMIC AGENDA, WHICH THIS WEEK CONTINUES WITH HIGH-LEVEL CONSIDERATION OF A SET OF NEW ECONOMIC PROPOSALS. NOTWITHSTANDING THE NO 5 RESIGNATION OF DEPUTY PRIME MINISTER AND ECONOMIC PLANNING AGENCY DIR FUKUDA, THE MINISTERIAL COUNCIL ON ECONOMIC AFFAIRS IS EXPECTED TO REACH DECISIONS NOV 12 ON THE NEED FOR, AND SHAPE OF, A NEW PACKAGE.

5. ANY NEW GOJ MEASURES WILL BE INTRODUCED IN A CLIMATE OF INCREASING CONCERN HERE ABOUT THE STRENGTH OF THE JAPANESE ECONOMIC RECOVERY. LIMITED OFFICIAL USE

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RECENT INDICES OF ECONOMIC ACTIVITY ARE MIXED BUT LARGELY UNFAVORABLE. THE TREND IN INDUSTRIAL PRODUCTION IS THE MAIN CAUSE OF IMMEDIATE WORRY. ACCORDING TO MITI'S ADVANCE INDICATORS, MINING-MANUFACTURING OUTPUT CONTINUED TO DECLINE THROUGH OCTOBER FOR A THIRD CONSECUTIVE MONTH, BRINGING THE DECREASE SINCE JULY TO ABOUT 3.7 PER CENT. AT THE SAME TIME, NO STRONG GENERAL PICKUP IN INVESTMENT SEEMS TO HAVE BEEN OCCURRING LATELY, DESPITE GAINS IN A FEW INDUSTRIES NOTABLY INCLUDING A SHARP SEPTEMBER RISE IN INDUSTRIAL MACHINERY

ORDERS. WITH REGARD TO EXPORTS, FRESH APPREHENSION EVIDENCED IN RECENT MONTHS BY AMERICANS AND ESPECIALLY EUROPEANS WITH RESPECT TO JAPANESE EXPORTS HAS COINCIDED WITH A RECENT DECLINE IN THE GROWTH RATE OF THOSE EXPORTS. THESE NEGATIVE SIGNS HAVE CAUSED THE IMPORTANCE OF DOMESTIC DEMAND IN SUSTAINING THE JAPANESE RECOVERY TO BE MUCH MORE WIDELY ACKNOWLEDGED THAN BEFORE, DESPITE A CONTINUING GOJ EAGERNESS TO INCREASE RAPIDLY PLANT EXPORTS TO DEVELOPING COUNTRIES.

6. PACKAGE OF EXPANSIONARY MEASURES EXPECTED TO BE ANNOUNCED AT NOV 12 MEETING OF MINISTERIAL COUNCIL ON ECONOMIC POLICY WILL REPORTEDLY INCLUDE FOLLOWING PROGRAMS: (A) ABOUT 300 TO 400 BILLION YEN IN CONSTRUCTION EXPENDITURES FOR JAPANESE NATL RAILWAYS AND TELEPHONE AND TELEGRAPH CORPORATION; (B) HOUSING LOANS TO FINANCE 20,000 TO 30,000 ADDITIONAL UNITS; (C) SOME SPEEDUP IN AWARDED OF PUBLIC WORKS CONTRACTS DURING LATTER HALF OF JFY 1976; (D) MEASURES TO INCREASE PLANT AND EQUIPMENT INVESTMENT FOR ELECTRIC POWER GENERATION AND PETROLEUM REFINING AND (E) SOME 400 BIL YEN IN ADDITIONAL SMALL BUSINESS LOANS. TAX CUT ALSO HAS BEEN PROPOSED, NOT SURPRISINGLY IN VIEW OF WIDELY ANTICIPATED DECEMBER 5 ELECTIONS, AND THIS ALREADY IS A MATTER OF CONTROVERSY, NOTWITHSTANDING FACT THAT NO SUCH MEASURE WOULD BE EXPECTED TO TAKE EFFECT BEFORE 1977. ISSUE REPORTEDLY PITTS PRIME MINISTER MIKI AND LDP SEC GEN UCHIDA OF OHIRA FACTION, WHO FAVOR CUT, AGAINST FINANCE MINISTER OHIRA HIMSELF AND FINMIN BUREAUCRATS, WHO HAVE EXPRESSED STRONG RESERVATIONS.

7. SOME ACTIONS TO PROVIDE A STIMULUS FOR THE ECONOMY NOW SEEM VIRTUALLY CERTAIN TO BE TAKEN AT THE NOVEMBER 12 MEETING OF THE MINISTERIAL COMMITTEE ON ECONOMIC AFFAIRS BUT KEY JAPANESE OFFICIALS REMAIN DEEPLY CONCERNED ABOUT INFLATION. CONSUMER PRICES HAVE BEEN RISING AT A SUBSTANTIAL CLIP, AND THE RAILWAY FARE AND TELEPHONE AND TELEGRAPH RATE INCREASES HAVE PROVIDED A FURTHER UPWARD JOLT. BEYOND THIS, THE PROSPECT OF ANOTHER OIL PRICE INCREASE LOOMS. LIMITED OFFICIAL USE

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THESE CIRCUMSTANCES ARE LIKELY TO LIMIT THE SCALE OF THE EXPECTED NEW GOJ EXPANSIONARY MEASURES IN PARTICULAR OF ANY TAX CUT INCLUDED AMONG THEM; IF INDEED THERE IS SUCH A CUT. HODGSON

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